

MISSOURI TAXES

MISSOURI DEPARTMENT OF ECONOMIC DEVELOPMENT

Missouri's tax structure provides corporations with one of the most favorable situations in the nation. Our tax requirements are responsibly based and competitive. Yet, because Missouri government is efficiently managed--deficit spending is unconstitutional--it can still maintain a high level of services and facilities through its sound fiscal practices.

CORPORATE INCOME TAX

In most cases, a company located in Missouri will have a lower corporate tax bill than in other states. State law sets the corporate income tax rate at 6.25% of net taxable income earned by a business in Missouri. In addition, Missouri allows 50% of federal income tax payments to be deducted before computing taxable income. Using this deduction, a corporation with a taxable income of \$1,000,000 would have a Missouri effective tax rate of only 5.2%. This is 7th-lowest in the nation.

MISSOURI TAXABLE INCOME

An important tax advantage for Missouri businesses is the amount of income considered taxable -- only income earned in Missouri is taxed. Two allocation options are offered for calculating this income: (1) the three-factor formula, based on sales, property and payroll, or (2) the single-factor formula, based only on sales. Missouri is the only state that permits companies to choose the formula that results in the lesser corporate income tax liability. This means that companies are not penalized for locating property and jobs in Missouri as they are in the other states. In addition, it is important to note that Missouri has not adopted worldwide or nationwide unitary tax assessment in computing multinational corporate income tax liability.

THREE-FACTOR FORMULA

A single state operation determines its intrastate sales and sales to non-nexus states to find the proportion of total or gross sales. A multi-state

company computes these same two types of sales, and in addition, sales originating in another state and terminating in Missouri, to determine Missouri's proportion of gross sales. Using this percentage of sales and percentages of property and payroll in Missouri, an average results in a ratio that is applied to taxable income.

SINGLE-FACTOR FORMULA

The single-factor formula is based only on sales. Fifty percent of interstate sales and 100% of Missouri intrastate sales are combined. This total is then divided by gross sales to determine the apportionment percentage.

SALES/USE TAX

The 4.225% state sales/use tax rate in Missouri is lower than the rates in 35 other states. Missouri communities have the option of adopting a local sales/use tax, generally ranging from 1/2 to 1%. Counties may also adopt a sales/use tax generally ranging from 1/4 to 1%. Use tax is similar to sales tax, but is imposed when tangible personal property comes into the state and is stored, used or consumed in Missouri. Missouri has responded to the needs of business and industry by providing eleven major exemptions from sales/use taxes:

1. Machinery and equipment used to establish a new, or expand an existing manufacturing facility, provided such machinery/equipment is used directly to manufacture a product ultimately intended for sale.
2. Replacement machinery and equipment used directly in manufacturing a product ultimately intended for sale, provided their acquisition has been necessitated by reason of change in design or product, as opposed to obsolescence.
3. Machinery, equipment and devices which abate air pollution. To qualify for this exemption, a company need only have the appropriate state governmental agency certify

that the equipment is pollution control equipment.

4. Machinery, equipment and devices which abate water pollution. To qualify for this exemption, a company need only have the appropriate state governmental agency certify that the equipment is pollution control equipment.
5. Machinery and equipment used to establish a new, or replace or expand an existing material recovery processing plant. The plant must convert recovered materials into a new product or different form.
6. All materials and supplies used to install tax-exempt machinery and equipment.
7. Electricity consumed in the manufacturing process provided the cost of the electricity exceeds 10% of total production costs. The cost of electrical energy consumed in the manufacturing process cannot be included in total production costs to qualify for the exemption. Electricity used for non-manufacturing purposes, such as lighting and heating, is taxable.
8. Electricity or gas, whether natural, artificial or propane when used in connection with basic steelmaking.
9. Electricity that is converted to stored chemical energy for providing an initial charge in lead-acid storage batteries during the manufacturing process, if this electricity is separately metered. This exemption does NOT apply to any local sales taxes.
10. Anodes used in manufacturing or other types of production, with a useful life of less than one year.
11. Computers, computer software, and computer security systems purchased for use by architectural, engineering, or accounting firms headquartered in Missouri.

NOTE: Building materials used to construct a new or expand an existing facility are normally taxable. However if a Missouri city or county retains title to financed properties, the building materials can be acquired by the local government tax-exempt.

PROPERTY TAX

Property tax is often a major tax expense for a company. Yet because it is set and administered locally, property tax is seldom comparable from

state to state. Not only do tax levies vary widely from one city to another, but the assessment ratio for determining property value differs significantly among the 50 states. Even within one state, assuring a uniform assessment practice is very difficult.

Missouri law sets the assessment ratio for personal property at one-third of true value throughout the state. Real properties (land and buildings) classified as commercial and industrial, are assessed at 32%; residential, 19%; and agricultural, 12% of true or fair market value. The local property tax rate is an aggregate of school, city, county, and state levies expressed in tax per \$100 assessed valuation. Commercial and industrial real property is assessed an additional county surcharge designed to replace revenues lost by the tax exemption of business inventories. The average county surcharge is about \$1.02 per \$100 assessed valuation, for a total commercial/industrial real property average tax rate of about \$6.89 per \$100. The average total personal property tax rate is about \$5.87 per \$100 valuation.

For example, at a particular Missouri site the commercial and industrial property tax rates might be as follows:

State.....	\$.03
County.....	\$1.92
City.....	\$.77
School.....	\$3.15
Surtax (real property).....	\$1.02

Total rates per \$100:

Personal Property.....\$5.87

Real Property.....\$6.89

Thus a company would pay \$5.87 per \$100 on 1/3 of its total personal property, and \$6.89 per \$100 on 32% of its total real property value.

INVENTORIES EXEMPT

Manufacturer's inventories (raw materials, goods in process and finished goods), as well as goods and wares of retailers, distributors and wholesalers are exempt from property taxes in Missouri.

Real Property Abatement:

Urban Redevelopment Corporations Law ("Chapter 353")
and Missouri Enterprise Zone Law

Missouri promotes urban redevelopment through a potential 25-year ad valorem tax incentive program known as Chapter 353. Under this program, up to 100% of improvements to real property may be exempt from state and local property taxes for up to 25 years. This law is applicable to any size city in Missouri.

Missouri enterprise zones may also abate improvements to real property up to 100% for up to 25 years.

UNEMPLOYMENT INSURANCE

Most companies doing business in Missouri are required to pay unemployment insurance to protect their workers during unemployment. This applies to most businesses having one or more workers on the payroll for 20 weeks during the calendar year, and to businesses paying an individual employee \$1,500 in a given quarter. Currently rates are based on the first \$7,500 of each employee's annual salary. The taxable wage base can increase each year in increments of \$500 if the state's unemployment fund balance is below \$100 million. However, if the balance is above \$250 million, the base will decrease by \$500 per year, but will not fall below the federally required minimum of \$7,000.

If the unemployment fund balance is less than \$400 million, employers must pay a surcharge-- 10% when the balance is \$350-\$400 million; 20% when the balance is \$300-\$350 million; and 30% when the balance is below \$300 million. If the balance is over \$400 million, however, there will be no surcharge, and if the balance is over \$500 million, the employer will receive a 7% credit, which will increase to 12% if the fund is over \$600 million. Since Missouri's fund balance is over \$500 million, employers currently will receive a 7% credit.

With the 20% surcharge, the employer with a credit balance will contribute at a rate of 0.0% to 2.511%. The employer with a deficit account will pay up to a maximum of 5.58%; and a new Missouri company with no experience rating, will pay the normal entry rate of 2.511% for two years. Thus, a new company's cost per employee would be 2.511% times \$7,500, or \$188.

SHARED WORK PROGRAM

In 1987, Missouri initiated the Shared Work Program to encourage job retention. Under the program, employers reduce work hours a certain percentage, rather than lay off employees. Those employees then receive both wages for actual hours worked, and partial unemployment insurance benefits. For example, if work hours are cut by 20%, the employee would receive 20% less in wages, but would also receive 20% of his weekly unemployment benefits. The benefits paid are then charged to the employer's unemployment insurance account and affect his tax rate for four years.

WORKER'S COMPENSATION

In every state, business and industry incur some expense to provide their employees with worker's compensation coverage. In Missouri, all businesses with five or more employees (except agricultural or domestic labor) must provide worker's compensation insurance to protect their workers in case of job-related injury, illness, or death. Companies can offer this protection through a private insurance carrier or they can become self-insurers. Premium rates vary, depending on the risks associated with special occupations. As in most states, the premium rates apply to an employee's total annual salary. The maximum weekly benefit for temporary total disability, temporary partial disability, permanent total disability and death is currently computed as 105% of the average weekly wage, determined annually on July 1. Missouri's worker's compensation rates compare favorably with those in other states. Though benefits for claimants in other states usually increase automatically from year to year, in Missouri benefits cannot be increased without the review and approval of the state legislature.

FRANCHISE TAX

Missouri's franchise tax is based on capital employed in a company. The rate is 1/30 of 1%, or \$0.33 per \$1,000 of par value of outstanding shares and surplus or total assets. Corporations with less than \$1,000,000 outstanding shares and surplus are not taxed. Multi-state corporations are subject to franchise tax only on that portion of total company shares and surplus which occurs in Missouri. The tax is computed by applying the

percentage of total property and assets which occurs in Missouri to total company shares and surplus. For example, a company with \$5,000,000 in outstanding shares and surplus, with 10% of its property and assets in Missouri, would have a franchise tax of \$165.

INITIAL FEES AND TAXES

A new corporation must pay an incorporation fee of \$50 for the first \$30,000 or less of shares and \$5 for each additional \$10,000 or portion thereof. A foreign corporation pays \$150 for certification. Annual corporate registration fees must also be paid by domestic and foreign corporations doing business in Missouri. The rate is \$40 annually for registration with the Secretary of State's Office.

TAX CREDITS

The Department of Economic Development administers numerous tax credits, including the following credits for creating new jobs and investment in Missouri:

NOTE: Effective 1/1/99, all taxpayers planning to initially qualify for the following credits, must file a form letter of intent no later than 15 days prior to the date of their development (expansion/replacement/new location) is put into operation.

NEW OR EXPANDED BUSINESS FACILITY CREDIT

Missouri's new or expanded business facility tax credit can be earned by (1) a new or expanding manufacturer, wholesale distributor, warehouseman, research and development, mining operator, computer programming/data processing service, interexchange telecommunications company facility, barge, rail or truck terminal operator, poultry/egg producer, farm implement retailer, or recycling operator who creates a minimum of two new jobs and \$100,000 of new investment; and (2) a new or expanding office tenant who creates a minimum of \$100,000 of new investment, and 25 new jobs. Office activities are limited to a headquarters, telemarketing, insurance company, passenger transportation ticket system, or credit card billing/processing center. Eligibility is determined by a company's Standard Industrial Classification (SIC) as assigned by the Missouri Division of Employment Security.

A new business may claim \$75 for each new employee and \$75 for each \$100,000 of new investment. An existing Missouri company is allowed \$100 per new employee and \$100 per \$100,000 of new investment. In distressed communities, new business benefits are elevated to \$125 for each new employee and each \$100,000 of new investment and existing business benefits are elevated to \$150 for each new employee and each \$100,000 of new investment.

The credit may be used to reduce state business income tax by up to 100% for ten tax years. The commencement of the tax credit may be deferred for up to three additional tax years. Once the credit is claimed, it may be earned each year for ten consecutive tax years if the required jobs/investment are maintained. The credit will vary from year to year depending on the amount of new jobs and investment created or maintained throughout the 10-year period. There are no carry-over provisions.

ENTERPRISE ZONE BENEFITS

The Enterprise Zone Act provides incentives to businesses creating two new jobs and \$100,000 new investment, which locate in economically distressed areas. Eligible activities (determined by a company's SIC as assigned by the Missouri Division of Employment Security) include those listed under the new/expanded business facility credit, as well as renting/leasing residential property to low/moderate income persons, employment agencies, health services: offices/clinics of MDs, DOs, Dentists, Chiropractors, Optometrists and other health practitioners, hospitals, medical and dental laboratories, kidney dialysis centers, and specialty outpatient facilities, and commercial banks and savings institutions. **NOTE:** retailers are eligible only in state enterprise zones which are located within an enterprise community (St. Louis, Kansas City and East Prairie zones). Hotels and motels are eligible only in the Kansas City and Excelsior Springs zones.

Firms meeting certain employee requirements, are eligible for a new investment tax credit of 10% of the first \$10,000, 5% of the next \$90,000, and 2% of any additional investment. In addition, up to 50% of taxable income attributed to the new or expanded portion of the enterprise zone facility is

exempt from state income tax when these employee requirements are met. Other credits include up to \$1,200 for each new employee hired, and up to a \$400 training credit for each employee who is a resident of the zone or who is considered difficult to employ.

Earned credits are used to offset up to 100% of state business income tax. The credits are calculated each year for up to ten tax years, provided the required jobs/investment are maintained, and will vary depending upon subsequent employment and investment levels. Tax credits earned by new facilities the first two years of operation that exceed the facility's tax liability are considered to be an overpayment of taxes: 50% up to \$50,000 of unused credits earned in the first year of operation may be refunded after the third year, and 25% up to \$25,000 of unused credits earned in the second year of operation may be refunded after the fourth year. At least a 50% abatement on local and state property taxes for at least ten years is also offered on improvements to real property used for manufacturing, wholesale distribution, warehousing, or mining.

PERSONAL INCOME TAX

Missouri's individual income tax rates are graduated from a low of 1½% on taxable incomes of \$1,000 or less, to a high of \$315 plus 6% on taxable incomes in excess of \$9,000. Taxable income may be reduced by a portion of federal income tax paid (up to \$5,000 on a single return and \$10,000 on a joint return), \$1,200 for each dependent, \$2,100 for each personal exemption, and by the federal standard deduction for a married couple filing jointly who do not itemize deductions.

CONTACT

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OTHER INFORMATION SOURCES OF DED

- Web site: www.missouridevelopment.org
- E-mail: ecodev@ded.state.mo.us

MISSOURI ECONOMIC ASSISTANCE CENTER

provides program summaries on resources that are available through the Department of Economic Development that maybe of assistance to your business or community. Visit the web site at www.missouridevelopment.org/business/economicassstancecenter

MISSOURI LOCATION ONE is an internet-based searchable system that shows available buildings and sites across Missouri. This system allows location consultants and company owners to evaluate Missouri communities from across the nation quickly and at no cost. This system can be accessed at www.missouridevelopment.org and clicking on business.

The **DIVISION OF WORKFORCE DEVELOPMENT** One-Stop Career Centers offers workforce development assistance to job seekers and employers. By using the State's network of One-Stop Career Centers, customers can access America's Job Bank, seek referral and placement assistance, career counseling and testing, labor market information AND USE MISSOURI WORKS! an Internet based, self-service workforce development tool. Visit their web site at www.missouridevelopment.org/employment/workforcedevelopment

MISSOURI MARKETPLACE offers information on thousands of Missouri-made products and services designed to encourage both in-state and out-of-state businesses and consumers to buy Missouri-made products. Registration is free and open to any Missouri-based company. To search the database or register your company, visit: www.missourimarketplace.org

The **COMMUNITY DEVELOPMENT** group offers over 15 different tax credit and grant programs to specifically meet the needs of not-for-profit organizations, community groups, and local government in areas such as infrastructure improvement, housing, violence prevention, and community facilities. For more information please call (573) 522-6155 or access the information at www.missouridevelopment.org/communities